

## Decoupling from Federal Accelerated Depreciation

### [Public Chapter 785 \(2004\)](#)

Franchise and  
Excise taxes  
notice  
#04-27

Effective for all tax years ending on or after July 15, 2002, Public Chapter 785 clarifies that Tennessee has permanently decoupled from federal accelerated depreciation for excise tax purposes. Under this act, excise tax is calculated using the asset depreciation schedules that existed prior to the federal Job Creation and Worker Assistance Act of 2002.

Public Chapter 785 (2004) amends the “add-back” adjustments of Tenn. Code Ann. Section 67-4-2006(b)(1) to include:

Any depreciation which the taxpayer deducted in computing its federal taxable income in excess of that which the taxpayer could have deducted in computing such income if the taxpayer had computed its depreciation under the provision of § 168 of the Internal Revenue Code as it existed and applied immediately prior to the passage of title 1, § 101, of the Job Creation and Worker Assistance Act of 2002.

A corresponding subtraction adjustment is made under provisions of Tenn. Code Ann. Section 67-4-2006(b)(2) as follows:

Any depreciation in excess of that which the taxpayer deducted in computing its federal taxable income that could have been deducted in computing such income if the taxpayer had computed its depreciation under the provisions of § 168 of the Internal Revenue Code as it existed and applied immediately prior to the passage of title 1, § 101, of the Job Creation and Worker Assistance Act of 2002.

It should be noted that Tennessee has not decoupled from the Internal Revenue Code Section 179

expense election. For Tennessee excise tax purposes, the increase in the Section 179 expense election from \$25,000 to \$100,000 will be allowed.

To the extent that taxpayers excise tax liability for tax years ending on or after July 15, 2002 is increased, amended tax returns can be filed and additional taxes paid without the accrual of interest or penalty, if filed by June 30, 2004. Taxpayers should mark the "amended" box located in the top right corner on page one of the franchise and excise tax return ([FAE 170](#)) and make the appropriate adjustments to net earnings subject to the excise tax on Line 12 of Schedule J.

Taxpayers also have until June 30, 2004, to make additional payments needed to meet the 90% requirement for fiscal year 2003 returns that have been extended and not yet filed.

Estimated franchise and excise tax payments due after July 1, 2004, should be based on the tax liability computed as a result of Public Chapter 785 (2004). The additional estimated payments should be paid using a quarterly franchise and excise tax declaration form ([FAE 172](#)). Forms are available on the Department of Revenue's Web site at [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue).

For more information regarding franchise, excise taxes, please visit our Web site. You may also contact us at (800) 397-8395 for in-state taxpayers and (615) 253-0700 for Nashville and out-of-state taxpayers. Have questions or comments? Please let us know. [Contact us.](#)

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